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MARCH 2000

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The Practicing CPA

SET UP YOUR OWN IT CONSULTING COMPANY

Visit any airport in the U.S. and you'll see ads for the Big Five, selling their IT and business consulting services. Turn on your television or read a magazine, and you will be exposed to myriad other companies that are casting their lines into a virtual ocean of IT consulting opportunities.

A lot of small or midsize firms currently offering audit, review, compilation and tax services probably see these ads and shake their heads in amazement. Perhaps they wish they too could offer IT consulting to their clients but don't think they're capable of it. They may simply think it's a big firm issue. But my three-partner firm in Coral Gables, Florida, took the plunge, and I believe other small firms too can prosper by offering their clients IT services.

My partners and I, along with three associates, work out of one office. The firm, Perez-Abreu, Aguerreberere, Sueiro, earns in excess of \$500,000 annually and offers audit, review, compilation, consulting and litigation support services.

We had noticed that many of our small and midsize clients were having a hard time retaining qualified technology staff. Even the smallest business needs some kind of computer system nowadays. But many of our clients required only occasional computer help and could not afford to hire a full-time person or set up an IT department. We felt we could help them out by offering them IT consulting services.

We set up a separate computer consulting company called Genesis Systems Consulting, Inc., and we hired an additional partner and one associate to run it. We felt that computer technology, information systems and knowledge management were all related to our clients' accounting, financial and general business needs. We realized that, in today's technology-driven marketplace, all our clients would benefit from IT-driven efficiencies. Setting up a separate computer consulting company gave our firm more opportunities to help our clients succeed.

Our clients feel comfortable with us because we are involved in so many aspects of their business growth. They also tell us they are happy to work with someone they trust.



How we set up the IT company

We hired a computer consultant to advise us how we could best help our clients. We were so impressed with his skills and background that we offered him an ownership interest in a new, separate computer consulting company. He agreed, and we set up the company and hired an associate.

Our new partner was able to bring to the table a network of IT experts in our region. But all the firm partners needed to reach out too, building contacts and relationships with alliance partners we could use as independent contractors. We also interviewed a lot of IT experts we would feel comfortable using on client engagements. That gave us the flexibility we needed to take on new projects and staff up when our clients needed extra help.

We then began to offer various new services to our current client base. For example, we can implement a new computer system, set up local area and wide area networks (LANs and WANs) or outsource an entire IT department. We charge our clients a flat fee for certain one-time projects or set up a monthly retainer fee for larger projects.

The key to success for us was bringing in an expert. Other CPA firms interested in setting up their own IT consulting company must be honest with themselves in judging how technology proficient they really are. They must be realistic in assessing whether they or anyone in their firm has the ability to manage and train an IT staff. There is nothing more difficult than attempting to sell or service a product you do not understand.

CPAs sometimes think they can select a "somewhat computer literate" staff person to be their IT manager. An IT manager must have the requisite skills and experience to do the following:

- *Properly supervise and guide the IT staff.* You don't want your independent contractors performing engagements for long-term clients that your IT supervisor or manager doesn't have the ability to supervise and administer.

PCPS INSIGHTS VIDEO

Check out an online video about a midsize firm in Buffalo, New York that set up its own IT consulting company for profit and fun. Just visit the PCPS members-only section of the AICPA Web site at www.aicpa.org. When you are on the PCPS sight, click on the box that says "PCPS Insights Video."

- *Properly service your clients.* Continuous problems may occur as your IT manager struggles to determine if client problems are related to existing hardware and software or the implementation of new equipment and software.
- *Motivate your IT staff and independent contractors.* Qualified IT specialists will not want to report to a supervisor who does not understand what they want to do.

I can't stress enough that it is imperative to have confidence in your in-house IT specialist. If the IT manager doesn't quickly develop the knowledge and expertise (by earning one or two of the many IT consulting certifications or designations, for example), he or she will have a negative effect on your whole IT consulting operation.

Set up a practice for success

To ensure your IT consulting company succeeds, you must have regular communication between the partners of the CPA firm and the partner/manager of the IT consulting company. Everyone in the firm needs to understand the competitive nature of the IT business and realize that the computer consulting company may function in a way that dramatically differs from the traditional CPA firm. For example, IT staff who may not have any special designation or credentials may be earning higher salaries. Consultants and private companies are offering big money to lure highly qualified personnel, and your IT company will have to do the same.

The profitability of the consulting company will depend

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greatly on the IT manager you have hired to oversee all your IT staff or independent contractors. However, profitability also will depend on the partners of the CPA firm, who must commit to generating leads, cross-selling to other clients and providing guidance to the IT manager. All the partners should be involved in marketing the new services your IT consulting company offers.

My partners actively market the service at local events and through networks. We also send out announcements and brochures to clients and to other businesses in our region. We enjoyed positive results within months of starting our IT business. I attribute that to the "full-court press" all our partners performed to exploit all contacts and prospective client referrals.

We had to learn to be patient. It can take as long as six months to two years before your new IT venture turns a profit. Be prepared to encounter some of the same roadblocks we did. For one thing, we didn't understand just how competitive the market really was. And we didn't know how imperfect a science technology consulting can be. And there is risk—if an IT engagement goes wrong, your client may sever his or her relationship with the firm.

Are you suited for success?

CPAs interested in offering these services must understand the importance of having a good team environment. You must mix and match personalities, combining IT expertise with the ability to work well with clients. Your IT manager should be able to communicate well with your long-term client base and understand their needs, strengths and shortcomings. Your IT staff must understand that not all clients are created equally and, therefore, cannot be treated in the same manner. For example, some of our clients had computer-savvy staff, while other clients had never used a computer until we installed one for them.

Our clients overall have been very happy with our IT consulting services. I attribute that to the IT staff's ability to communicate at all levels. They understand who each client is and what they mean to the success of the firm. It is, of course, very easy for IT techies to fall into the habit of speaking over the clients' heads. This must be avoided at all costs. It will lead to confusion, misunderstanding and differences in expectations, which always lead to unhappy clients.

Therefore, you must be able to trust your IT staff to help nurture your clients—just as you and your partners have done for years. ✓

— By **Juan Aguerrebere, Jr.**, director of *Perez-Abreu, Aguerrebere, Sueiro and Genesis Systems Consulting, Inc.*, in Coral Gables, Florida. Phone: 305-567-0150; e-mail: jaguerrebere@genesis-consulting.net.

NEW AICPA IT CREDENTIAL

The AICPA information technology committee has developed a new accreditation for CPAs involved in IT consulting, strategic planning, implementation and management. The new IT accreditation is the first one developed under the auspices of the national accreditation commission, which is responsible for ensuring the AICPA accreditation process moves forward.

"Market research reveals that business owners and executives need impartial guidance in making strategic technology-related decisions," said Gary Boomer, former chair of the AICPA information technology committee. "This is where CPAs who earn the accreditation will provide valuable service."

CPAs who earn the IT accreditation will be capable of assisting their clients select and install computer hardware and software and monitoring and updating computer systems. They also will be able to

- Review data processing operations.
- Evaluate accounting systems.
- Assess the level of IT knowledge and assist in training.
- Design and develop Web sites.

Earning the IT accreditation

The IT committee has developed a new point system to determine who will earn the AICPA IT accreditation. The point system is based upon business experience, life-long learning and the results of an exam. There will be minimum requirements for both the business experience and the life-long learning. CPAs who do not earn enough points in those two areas will be required to take the exam.

Some of the technology-related *experience* includes

- Managing the control, security, implementation or application of IT systems or networks.
- Advising or instructing on the management, use, security, control or implementation of IT systems, including the analysis of and recommendations for solutions to IT problems.
- Determining technology skills and training requirements.
- Developing IT standards and policies.
- Auditing an existing IT system or the implementation of a new IT system.

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LETTERS TO THE EDITOR

The Practicing CPA encourages its readers to write letters on practice management issues and on published articles. Please remember to include your name and your telephone and fax numbers. Send your letters by e-mail to **pcpa@aicpa.org**.

- Developing an IT strategic plan, budget and disaster recovery plan.
- Teaching IT courses.
- Instructing how an IT system can be implemented.

Some of the *life-long learning* activities include

- Continuing education. Courses in self-study or group study format.
- Approved IT courses at an accredited university or college.
- Non-traditional learning methods, such as on-the-job-training, mentoring, various readings and research projects.
- Other technology-related certification received within three years prior to applying for the IT accreditation.
- IT presentations and published IT articles or essays.

The IT accreditation will be available by the summer of 2000. For more information on the IT accreditation, contact Nancy Cohen, AICPA technical manager, at ncohen@aicpa.org. ✓

TAX TIP: GIFTS AND LIABILITY

Taxpayers generally are not subject to income or gift taxes when they receive a gift. However, when the gift is property, recipients should be aware of the possible tax liability related to their ownership. Obviously, any taxable income generated by a gift after a transfer must be reported on a recipient's tax return. The recipient also should consider any related tax liability in his or her tax planning. Therefore, CPAs should know the holding period and tax basis rules related to property received as a gift.

Recipients of appreciated gifts are considered by the IRS to have a holding period that includes the time the property was held by the donor. For example, a donor acquired appreciated property on January 15, 1995, and gifted the property to her son on June 30, 1999. The son's holding period is considered to have started on January 15, 1995. Therefore, the property is considered an appreciated capital asset in the hands of the son, and he can sell it at any time. If the property continues to increase in value, he can recognize the increase as a favorably taxed long-term capital gain.

The tax basis rules for gift recipients are more complicated. For the purpose of determining the gain on a sale of gifted property, the recipient's tax basis is the same as the donor's, but it can be increased by a portion of the donor's gift tax that was already paid. However, in determining loss, the recipient's tax basis is the lesser of (a) the donor's tax basis or (b) the fair market value of the property at the time of the gift.

For example, a donor holds 100 shares of stock with a basis of \$1,000 and a fair market value of \$900. She gifts these shares to her son. If the son sells the 100 shares for \$1,200, his taxable gain will be \$200. If he sells the 100 shares for \$600, his tax loss will be \$300 (\$900 minus \$600, the fair market value at the date of the gift). If he sells the 100 shares for \$950, no gain or loss results because the basis for determining gain is \$1,000 (which would produce a loss) and the basis for determining loss is \$900 (which would produce a gain).

If the property donor incurs a gift tax liability when he or she gives the gift, the recipient's basis for income tax purposes as determined under the above rules is increased by a portion of the gift tax. The amount of the increase is a percentage of the gift tax paid by the donor, based on the ratio of the donor's net appreciation to the fair market value of the gifted property.

For example, a donor owns property with a basis of \$6,000 and a fair market value of \$10,000, which he gifts to his niece. As a result he pays a \$4,000 gift tax. Because the net appreciation was 40% of the fair market value (\$4,000 divided by \$10,000), 40% of the gift tax, or \$1,600, is added to the niece's tax basis. Therefore, her basis is \$7,600.

The donor currently is not responsible for notifying the recipient of the tax basis of the transferred property. This can cause problems when the recipient sells the property (often, years later) and reports the sale on his or her income tax return. Therefore, it is important that recipients of gifts of property request the relevant basis information from the person making the gift, and retain this information in their tax files. ✓

—By **Robert E. Harrison**, tax partner of *Richard A. Eisner & Company* in New York City. E-mail: rbarrison@eisner.rae.com.

TAX TIME FYI

According to an article in the March 15, 2000 *Wall Street Journal*, more taxpayers are using their MasterCard, Discover or American Express cards to pay their taxes. More than 64,000 credit card payments had been made by the beginning of March. This is four times the number it was for the same period in 1999. The average credit card payment this year is \$761.

The Treasury Department does not charge fees for credit card payments. However, taxpayers must pay "convenience fees" based on a sliding scale and the size of their tax payment. According to the Official Payments Corporation, the average fee in 1999 was approximately 2.5% of the tax payment.

For more information on credit card payments, visit the IRS online at www.irs.gov.

MARKETING: TELEPROSPECTING FOR SUCCESS

Most CPAs are on the phone with clients every day, but often overlook its use as a marketing tool. While you are on the phone, giving clients updates and talking about their accounts, you could be doing some effective teleprospecting for your firm.

Teleprospecting generally is defined as determining the interest a client or prospective client might have in your product or service. By the end of your conversation, you should have an appointment to meet with that client to further discuss the service or, even better, a commitment from him or her to use your service.

"Marketing—in particular, teleprospecting—is an essential tool that every CPA firm should incorporate into its practice," says Brian Mackey, MBA, and president of the National Network of Accountants (NNA). "At the NNA, we include marketing training and support for members and we encourage them to design and implement teleprospecting programs. We have found that CPAs who take the time and make the commitment to teleprospecting significantly increase their revenues," says Mackey.

Following are a few of my suggestions and tips for implementing a successful teleprospecting program.

Set challenging goals. Create a sizeable list of prospects, and try to make at least five new contacts every day. Determine whether you want to reach individuals or businesses that are like the ones you already have or branch out into new industries. The Direct Marketing Association (DMA) at 212-768-7277 (www.the-dma.org) can provide you with the names of brokers who will sell you lists of potential clients in your region. Or simply go online and use your favorite search engine to find list brokers who can help you.

Give it a personal touch. It's extremely important for CPAs to market person to person. You are selling customized professional services; therefore, it is essential that you build a strong rapport with a potential client. Some firms rely on mailings, brochures, newsletters and advertisements to attract new business. These marketing tools are not enough. If you can't get out and meet with every prospect—and no CPA has the time to do that—then you have to pick up the phone.

Don't be reluctant to call. There are times we all dread picking up the phone to market the firm. Also, many CPAs rely heavily on referrals for new business. But teleprospecting can even help build those referral sources.

If making the first call is difficult, block out a specific time each day to call and talk to prospective clients and referral sources. Put a sign on your office door that reads "Do not disturb," and tell your assistant to take messages for you. You should not be distracted while on the phone with a prospect.

Plan your calls. Before you dial, know what you want to say. Type a clear outline of everything a potential client should learn about a service. Do not write a script—you don't want to sound as if you're reading from one.

As you prepare an outline, ask yourself what you might expect to hear from someone selling you a new service. Ensure that your outline is up to date and applies to each new prospect—you may have to amend it slightly for each call.

Respond to all questions. Even though you have prepared the outline of what you want to say, your prospect may barrage you with questions you didn't expect. This happens, and it is all part of building rapport. Answer the questions you can, but don't try to bluff if you're not sure of an answer. Instead, tell the prospect you'll get back to him or her right away, and then set a date and time when you will follow up. Put any new or unexpected question, and the answer, on your outline so you will be prepared the next time they are asked.

Engage the prospect. Telephone conversations should always be dialogues, not monologues. Include questions on your outline that elicit information from the prospect about his or her situation. The more information you obtain, the better the opportunity you have for making a sale or at least setting up an appointment to discuss a service in more detail.

Talk about the benefits. Describe the benefits of a new service to the prospect. Explain how it will save him or her time, money and unnecessary worry. Your reputation as a CPA provides you with a distinct advantage over other professionals, particularly when making initial contact with a prospect. This will help you when you are discussing benefits—don't worry about sounding like a salesman. Other professionals such as stock brokers do not enjoy this privilege.

Keep track of your calls. To ensure you are following up on your contacts, it is a good idea to use contact management software, such as ACT, Goldmine or Maximizer. You can buy this software online or at any computer software retailer. You also can set up your own system, using a regular spreadsheet, to organize your calls and remind you when you need to make a follow-up call.

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PRACTICE ALERTS ONLINE

Approximately three times a year, the professional issues task force issues practice alerts, which are intended to provide auditors with information that will help them improve the efficiency and effectiveness of their audits. These practice alerts are based on existing professional literature, the professional experience of the members of the professional issues task force (PITF) and information provided by SEC practice section member firms for their own professional staff.

Previously issued practice alerts can be obtained by accessing the AICPA's Web site at www.aicpa.org/members/div/secps/lit/practice.htm. These include the following:

- 00-2 Quality of Accounting Principles and Audit Adjustments—Guidance for Discussions with Audit Committees
- 00-1 Accounting for Certain Equity Transactions
- 99-2 How the Use of a Service Organization Affects Internal Control Considerations
- 99-1 Guidance for Independence, Discussion with Audit Committees
- 98-3 Revenue Recognition Issues
- 98-2 Professional Skepticism and Related Topics
- 98-1 The Auditor's Use of Analytical Procedures
- 97-3 Changes in Auditors and Related Topics
- 97-2 Audit of Employee Benefit Plans
- 97-1 Financial Statements on the Internet
- 96-1 The Private Securities Litigation Reform Act of 1995
- 95-3 Auditing Related Parties and Related Party Transactions
- 95-2 Complex Derivatives*
- 95-1 Revenue Recognition Issues**
- 94-3 Acceptance and Continuance of Audit Clients
- 94-2 Auditing Inventory—Physical Observations
- 94-1 Dealing with Audit Differences

*Practice Alert 95-2 is no longer relevant due to recently issued accounting pronouncements relating to derivatives.

**Practice Alert 98-3 supersedes Practice Alert 95-1.

Comments or questions on practice alerts should be directed to the AICPA SEC Practice Section at 201-938-3022.

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Set up an appointment. This relieves a potential client of uncertainty and doubt. Offering to meet face to face personalizes your approach, builds rapport and gives the prospect an opportunity to learn more about you and your firm.

Use appropriate style and language. The tone of your voice, or even the speed at which you speak can make or break your calls. If a prospect is turned off by something in your delivery, he or she is likely to be turned off to your pitch immediately. Always remember to project a confident and friendly image and, no matter how comfortable you feel with a prospect, always use professional language.

Be persistent. The rule of thumb is that it takes between 6 and 12 calls to reach a business decision-maker. If you have trouble contacting a person, don't quit or lose patience.

Determine what's the best time to reach a prospect and you can cut down on wasted calls. It's better to call some individuals early in the morning or after regular work hours. If you are calling people at home, carefully consider both the time you call and your approach. Many people don't want to talk business at home. The first call is always the hardest to make. Becoming a successful "teleprospector" takes time, commitment and practice. You will overcome your uneasiness with the process with each new call you make. The rewards can be remarkable for those willing to commit to a program and to keep their teleprospecting skills up to date with regular training. ✓

—By **Adrian Miller**, president of *Adrian Miller Direct Marketing, Inc.*, of Port Washington, New York. Phone: 516-767-9288; e-mail: amiller988@aol.com.

CLIENT BROCHURE: LARGE CASH PAYOUTS

The Federal Government estimates that inheritances, which stood at \$110 billion in 1995, will reach \$340 billion by 2015. Employees who participate in a 401(k) plan or other retirement program could receive a six- or seven-figure cash settlement when they retire. No doubt some of your clients will be receiving large cash payouts. In lieu of this, the Forum for Investor Advice has published a new brochure intended to help benefactors of large sums of money cope with their financial windfall. The brochure, *Serious Money Do's & Don'ts: What to do when you receive a large cash payout*, lists five valuable pieces of advice, such as don't confuse short-term saving with long-term investing.

Copies of the brochure are available for \$1.00 each, in bundles of 50 by calling 800-200-1819, or online at www.investoradvice.org.



New TIC Chair Eyes Firm Overload

The new chair of the PCPS technical issues committee (TIC), Candace E. (Candy) Wright, an audit director with Postlethwaite & Netterville in Baton Rouge, Louisiana, wants to keep CPA firms from experiencing future standards overload. TIC is charged with overseeing all standards issues that affect CPA firms and their clients, and Wright is taking this responsibility seriously.

While TIC focuses primarily on issues that affect smaller firms and privately-held clients, it also must keep large firm and public company issues on its radar screen. Wright intends to ensure small firms do not get "blind-sided" by issues that only Big Five firms are adequately staffed to handle.

"There is a trickle-down effect that reaches smaller firms, even if they don't have clients that are SEC registrants," said Wright. "Many large firm issues are relevant to smaller firms, who strive to maintain an efficient audit process while complying with all the professional audit standards."

The TIC interacts regularly with the Financial Accounting Standards Board, the Governmental Accounting Standards Board, the AICPA's accounting standards executive committee (AcSEC), the auditing standards board (ASB), the Independence Standards Board and various government regulatory agencies. To meet its goals, the TIC tests proposed guidance to determine how it will affect small and midsize firms.

According to Wright, some of the members of the regulatory bodies have little first-hand experience with the situations, problems and challenges of smaller practice units. She plans to beef up contact with all relevant standard-setting bodies to ensure their continued awareness of the needs of small firms and the accounting and auditing needs of their similarly small clients.

Wright succeeds James A. Koepke, a shareholder of Doeren Mayhew, a firm in Troy, Michigan. He has been the TIC chair since 1996. Wright joined Postlethwaite & Netterville in 1985 and was made a director in 1994.

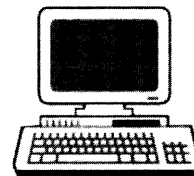
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FREE FOR PCPS MEMBERS

The February 2000 issue of *The Practicing CPA* included a registration form for the 2000 Practitioners Symposium. It included an optional preconference session on implementing the vision for CPA firms (no. 102). All PCPS members are invited to attend that session free.

BizSites

Useful Web sites for the practicing CPA



Online Retirement Calculators

Do you know where your clients are going for retirement and investment information? It's likely they are tapping into the Internet to answer their questions.

www.fplanauditors.com

This site is designed for financial advisers. Calculators in the site use a historical analysis method that predicts the likely outcome of a financial plan based on its implementation in different historical market periods. The best part about the calculations are their detail—you will know all of the "assumptions" that are used to determine the retirement projections. Accounts on the site are free, and information can be saved.

www.vanguard.com/?retiring

Vanguard's online retirement planner allows the user to adjust variables and run numerous "what if" scenarios. But, it suggests asset allocations using only Vanguard funds. This is an excellent site to help educate your client on retirement planning. If you're not a Vanguard customer, however, you can't save your information.

www.financialengines.com

Founded by Nobel Prize-winning economist William Sharpe, this site is primarily designed for 401(k) programs. Calculations are based on Monte Carlo simulation (MCS), a statistical generation of random possible returns for any given time period based on a statistically assumed distribution of returns. What makes financial advisers nervous is that you can't see all the assumptions and calculations—it's a veritable "black box."

www.fool.com

Unfortunately, some of your clients may be planning their future based on the retirement planning calculator on this site. They'll have to consult a sage as well because the site asks users to guess how long they will live and what their investment returns will be. The site does offer some useful information, but there is no compelling reason for a CPA to visit it for retirement advice.

— *Compiled by Dean Mioli, senior technical manager in the AICPA personal financial planning division.*
E-mail: dmioli@aicpa.org.

AICPA/PCPS does not endorse Web sites that appear in BizSites.

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Prior to joining the firm, she was an accountant with a multistate pharmaceutical company. She has been active in the accounting profession on both the state and national level. She served as president of the Baton Rouge chapter of CPAs and has been a member of the board of directors of the Louisiana Society of CPAs.

Network With Peers

Looking for an opportunity to network with your peers? If your firm has more than 10 AICPA members, there's a prestigious new program for you: the MAP large firm network, for firms with 25 to 49 AICPA members, and the MAP midsize firm network, for firms with 10 to 24 AICPA members. The large firm network meets in San Diego on May 8, and the midsize firm network will meet in Las Vegas, right after the practitioners symposium on June 8. Attend and share best practices tactics and skills to increase profitability and productivity. CPAs who are interested in participating should contact Dave Handrich

by phone at 800-CPA-FIRM or by e-mail at dhandrich@aicpa.org.

Calling all MAP Committees!

PCPS is hosting a state society MAP meeting in Las Vegas, May 15-16, which is open to state society MAP staff members and committee chairs from state MAP committees and firm associations. Speakers will include Gary Shamis, Charles Larson (of the famous Missouri MAP conference), Dr. Bob Brewer (of the Staffing Forum), a noted speaker on Gen-X issues as well as state society representatives.

Millennium Report

Have you seen the PCPS Millennium Report? It's live on the PCPS Web site. Visit www.aicpa/pcps to find out about new opportunities for firms and how to expand your client service offerings. Non-PCPS members should call 888-777-7077 (order number 018037) to purchase the report or simply join PCPS and receive a free copy. ✓

PCPS/ The AICPA Alliance for CPA Firms

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